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SUBJECT: KAZAKHSTAN: BTA BANK RESTRUCTURING UPDATES

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REFTEL: ASTANA 1626

11. (U) Sensitive but unclassified. Not for public Internet.

12. (U) SUMMARY: Despite fears and concerns about the progress and results of BTA restructuring talks, BTA bank management signed the "Principal Commercial Terms Sheet" on December 7 in London. Creditor-agreed options include a special provision for trade finance, which local experts regard as an export-credit-agency victory. BTA bank CEO Anvar Saidenov asserted that "the period of ambiguity for the bank is in the past." BTA Bank now must submit restructuring plans for Creditors' Committee approval before March 23, 2010. END SUMMARY.

SAIDENOV OPTIMISTIC

13. (U) On December 22, BTA bank's press service reported the successful completion of the main stage of restructuring talks due to the signature of an outline of "Principal Commercial Terms" in London on December 7. Anvar Saidenov, BTA bank CEO, asserted that this document, which demonstrates "absolute consent on all economic terms between the bank and its creditors is a great stride toward the restoration of the financial institution." Saidenov further stated that "the period of ambiguity for the bank is in the past."

\$7.7 BILLION IN WRITE-OFFS

14. (U) Under the restructuring plan agreed on December 7, creditors can choose from a menu of financial instruments in exchange for their existing debt claims. The plan, with suggested creditor options, should be submitted to the Creditors' Committee for approval by March 23, 2010.

15. (U) As part of the plan, BTA bank and the Creditors' Steering Committee have agreed to write off \$7.7 billion in debt and interest. Upon completion of restructuring, BTA's debt liabilities should consist of \$4.564 billion, of which \$797 million will be

subordinated debt. Visor Capital estimates that this offer reduces write-offs by \$1.4 billion compared to earlier proposals due to a reduction in provisioning and relief on required capital levels. Debt reduction and the conversion of part of the debt into the capital shares should generate \$11.13 billion of additional regulatory capital. Samruk-Kazyna (SK), as a main shareholder of the bank, will convert approximately \$4.5 billion of BTA bank's debt into capital shares. After restructuring, SK will own approximately 85% of the bank's shares, with creditors holding the rest.

A FEW DAYS BEFORE SIGNATURE

¶6. (SBU) On December 4, Directors of the Investors Relations and Financial Institutions Department and the Middle East and Asia Department of BTA bank, Janelle Utemuratova and Nariman Zharkinbayev, argued to representatives of the U.S. Treasury Department, OPIC, and EconOff that BTA's restructuring is much more complicated than that of Alliance Bank. They explained this complexity resulted from BTA's greater number of foreign subsidiaries and repeated exercises of due diligence at the insistence of the Creditors' Committee. They asserted the due diligence yielded identical results but slowed down the restructuring process.

¶7. (SBU) In contrast to Alliance Bank, BTA bank's initial restructuring proposals did not contain a special option for trade finance despite its importance to BTA. Because "BTA bank used to play a big role in this market and covered around 40% of total trade finance in Kazakhstan," she said, "BTA's approach to trade-finance restructuring will definitely impact relations with Export Credit Agencies (ECAs)." Utemuratova underlined the importance for BTA -- and Kazakhstani banks as a whole -- of reestablishing good relations with ECAs. Although the global financial crisis has reduced trade

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finance's share of investment inflows, trade-finance demand remains high in Kazakhstan. She argued that local money remains expensive and limited -- "the inter-bank market is almost dead, and the deposit basis is quite narrow." As a result, Utemuratova predicted a separate restructuring option for trade finance.

FOUR SENIOR, TWO JUNIOR DEBT RESTRUCTURING PACKAGES

¶8. (U) The signed restructuring proposal contains four packages of "Senior Debt" and two packages of "Junior Debt." Senior Package 1 covers approximately 74.8% of creditors who hold \$7.7 billion in current debt. Most bonds, bank loans, and a part of certain non-ECA trade-finance debt instruments will fall under this restructuring package. It will pay \$946 million in cash through the issuance of new eight-year debt instruments with a 70% discount on principal and 15-year subordinated debt instruments. Creditors also will receive around 8.7% of the bank's shares and 82.43% of BTA-issued recovery notes.

¶9. (U) 15.9% of creditors, representing \$1.6 billion in liabilities, are expected to participate in Senior Package 2. This package should address the requirements of export-credit agencies, government obligations, and some trade-finance liabilities. This package envisages the issuance of special debt instruments -- "Original Issue Discount Instruments" (OID) -- with a Day-1 value of \$763 million (or 46.6 % of current principal) and a fully accreted value of \$1.636 billion at the end of 11 years (i.e., the full accreted value equals current total nominal debt). In addition to OID, Package-2 creditors can access 15-year subordinated-debt instruments in the amount of \$105 million and approximately 1.8% of the bank's equity and 17.57% of recovery notes. Senior Package 2 offers various, not mutually-exclusive, instruments to ECAs, and is the only package that does not contain any "haircuts" for creditors.

(NOTE: Post does not know which package U.S. Export Credit Agencies, including the U.S. Export-Import bank, OPIC, and the U.S. Department of Agriculture's Commodity Credit Corporation, will be offered and accept. END NOTE.)

¶10. (U) On December 22, BTA bank CEO Anvar Saidenov said that OID will be offered for 11 years, with a seven-year grace period. During the latter, the bank will pay a 3.75% per annum interest rate

in cash. Thereafter, it will pay a 3.2% interest rate semi-annually. However, according to BTA bank, this mechanism remains under discussion and will be clarified in new Commercial Terms on January 31, 2010. Creditors enrolled in Senior Packages 1 and 2 also will receive some of the funds obtained by the bank through its collection of problem assets, including through court cases.

¶11. (U) Senior Package 3 will restructure current liabilities on trade finance in the amount of nearly \$700 million. It envisages the refinancing of liabilities through a new two-year Revolving Committed Trade Finance Facility (RCTFF). Senior Package 4 is designed for Islamic banking creditors whose liabilities equal \$250 million. This debt will be cleared with \$54 million in cash (i.e., about 78.5% of the debt will be written off).

¶12. (U) Junior Package 1 proposes to repay the 28 billion tenge (\$186 million) currently owed to pension funds after a minimum of 20 years. Under Junior Package 2, holders of subordinated and perpetual bonds, which total \$1.1 billion, will exchange their bonds for common shares equaling approximately 4.5% of BTA bank.

AFTER RESTRUCTURING?

¶13. (U) On December 22, Chairman of the Board of BTA bank Arman Dunayev said that BTA bank may begin active negotiations with strategic investors in summer 2010. Dunayev noted that Samruk-Kazyna Welfare Fund does not intend to remain a long-term investor. "Immediately after settling all the issues with creditors, the bank may opt to sell its share. The talks cannot be

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held officially, and investors cannot identify themselves unless the restructuring is completed. As for Sberbank, we will continue to discuss its possible acquisition of the bank's share, but there is nothing more than that. I believe that any strategic investor will wait for the outcome of the debt restructuring," Dunayev asserted.

¶14. (U) According to Dunaev, BTA bank will conduct an Initial Public Offering (IPO) in London within the next three to four years. At that time, creditors could convert their debt into "participation notes," and become effective shareholders of BTA bank. Equity-linked creditors could exchange their debt for Global Depositary Receipt (GDRs) or into common shares, he claimed. Therefore, BTA bank must conduct the IPO at a foreign exchange, which Dunayev argued would be the London Stock Exchange. Further details on IPO-related matters are expected in the final version of Commercial Terms.

BTA SAGA: TO BE CONTINUED

¶15. (U) According to the local press, markets reacted positively to this news. According to "Respublika" newspaper, prices for BTA Eurobonds, which prior to December 7 were at 20% of nominal value, soared to 32% of nominal value. The forecasts of professional analysts, such as Visor Capital, now also are optimistic about BTA bonds.

¶16. (SBU) Still, local experts cautiously assess the announcements of BTA's top management. Mukhamedzhan Adilov, "Respublika's" economic observer, asserted that the agreed "Principal Commercial Terms Sheet" more closely reflects the initial position of creditors than that of BTA bank. Adilov further argued that export-credit agencies, trade-financing-debt holders, and government-related agencies received the most favorable restructuring conditions. He alleged that subordinated-debt holders and perpetual-bonds holders, who will receive only 4.5% of the bank's equity, were the most disadvantaged. According to Adilov, "this adventure [successful restructuring] will cost Kazakhstan \$9-10 billion." Because the "Principal Commercial Terms Sheet" is not obligatory and a more detailed version will replace it early next year, creditors' assessment of these options and their votes on proposed terms remains unclear.

¶17. (SBU) COMMENT: Kazakhstani government and BTA bank optimism is

somewhat warranted -- signature of "Principal Commercial Terms Sheet" is a significant step toward the completion of BTA restructuring. Although the phantom of conservatorship and liquidation of BTA bank no longer looms on the near-term horizon, the restructuring process is far from complete, and the destiny of Kazakhstan's second largest bank remains vague. Saidenov's claim on the reestablishment of BTA bank's key position in the market thus appears exaggerated and perhaps premature. END COMMENT.

HOAGLAND